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## DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT

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Salem City Council  
Salem City Hall  
93 Washington Street  
Salem, MA 01970

Dear Members of the City Council Subcommittee on Ordinances, Licenses, and Legal Affairs and Committee of the Whole,

This letter is a response to questions that were forwarded to me by OLLA Chair, Councillor Madore. The questions ask about both the loan program and the tax incentive. Please be advised the agenda item is to discuss a Home Rule Petition relative to Property Tax Exemptions for Rental Properties. The loan program is not on OLLA because it is not an ordinance, license or legal affair, nor is it a City Council vote. The loan program is contingent on the ADU ordinance passing, to that end it has not been funded yet nor has the framework for the loan been determined. Most often, the framework will be determined by the funding source.

1. Limits on number of Loans or dollar value of loans that will give by the City. Without knowing how many loans the City plans on providing it is impossible to budget. There is no language in the incentive program that defines just how much the City intends on spending with this program. There needs to be a limit clearly stated.

The purpose of the ADU loan program is to provide funding for homeowners to build an accessory dwelling unit, in exchange for renting their unit at no more than 60 percent of the Area Median Income (AMI). At this time, no City general funds are proposed for this loan program.

2. Where specifically are the funds being taken from? Is the plan to use CPA funds only or will the funds be taken from other areas. It is important for several reason to identify where these funds are being allocated from.

At this time, the assumption is that federal HOME funds will be used and staff will apply for private grants for the program. CPA funds will not be requested. While there are private grants that could

be applied for, the grant application would not be competitive until the ordinance is adopted. The City Council could also allocate funds towards the loan program. Each funding source has specific guidelines (terms of the loan) that will need to be followed. Federal HOME funds are typically the most restrictive. These requirements will be used to frame the terms of the loan program once the sources are secured.

3. Are current illegal existing ADU's eligible for both the Loan Program and Tax incentive package? I do not think the City should be rewarding past illegal activities with Loans. Tax incentives to ensure the illegal ADUS's are brought to code seems like a good idea but not loans for ADU's that already exist.

The purpose of the ADU loan program is to provide funding for homeowners to build an accessory dwelling unit, in exchange for renting their unit below market rate. If the unit is already built, the loan program would not be necessary. However, if the illegal units become legal, they would be eligible for the tax incentive. The goal of the tax incentive is to incentivize homeowners to rent their legal units at no more than 60 percent AML.

4. Who will be the approving authority for the loan program? Is this a City Council determination or will it be kicked to the CPC?

The Department of Planning and Community Development will be responsible for the loan program. Loans that meet eligibility requirements will be awarded on a first-come first-served basis. It is worth noting that City staff have been managing loan programs funded by Community Development Block Grant (CDBG) program for decades. Staff have a breadth of experience in reviewing financial documents to determine income eligibility.

5. Currently there is no language restricting the Loan or Tax incentive for people who build an ADU and have a family member move in. Specifically, a family member that meets the income limitations spelled out. One example would be as follows: Homeowner has elderly mother sell her existing house and move in to an ADU on his property. As long as the mother meets the income requirements the homeowner is eligible for both the Loan and Tax Incentive. Another example would be a homeowner with adult child living at home who meets the income requirements. Build an ADU with City Loan and Tax incentive, then have your child move in. Under both of these instances additional housing was not added and the City is financing the ADU.

The Affordable Housing Trust Fund Board (AHTFB) recommended that the loan program require a deed restriction that the unit will be a Local Action Unit (LAU). This ensures the unit qualifies as affordable on the State's Subsidized Housing Inventory. The rationale for the recommendation is because there is a long-term investment and thus there is a proportional nexus to require a deed restriction for the length of the loan. In contrast, the AHTFB recommended the tax incentive program be administered by an annual application to the City Assessor. It is short term (an annual reduction), and thus lacks the proportional nexus to require a deed restriction.

Family members would be prohibited from occupying ADUs created through the loan program during the time period of the required deed restriction, which will be equivalent to the length of the loan. The reason for this is described in the next paragraph. The current draft of the Special Act does not prohibit family members from occupying ADUs in which the homeowner has received a tax

incentive. However, the City Council could consider adding language to that effect. Please be advised that if this were proposed, “family member” would need to be defined.

In order to qualify as a LAU, the unit must include a full Affirmative Fair Housing Marketing Plan (AFHMP). The AFHMP specifically prohibits family members from being eligible occupants of the LAU. Therefore, a family member would be prohibited from occupying a unit created through the loan program while that unit has a deed restriction.

Sincerely,

Amanda Chiancola, AICP  
Senior Planner

Cc: Mayor Kimberley Driscoll  
Tom Daniel, DPCD Director  
Ilene Simons, City Clerk